

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

---

### **Assembly Bill 979**

**Assembly Member Cedillo (As amended 8/22/02)**

### **Position:**

**Support**

### **Proponents:**

**CSEA (Co-Sponsor), SEIU (Co-Sponsor), CFT, CA State Firefighters' Association, CA/NV Conference of Operating Engineers**

### **Opponents:**

**None known**

## **SUMMARY**

Assembly Bill 979, among other things, exempts members of the Defined Benefit (DB) Program and participants in the Cash Balance (CB) Benefit Program called to active military duty between September 11, 2001 and July 30, 2005, from paying the required member contributions, for up to one year, to receive retirement benefits for their military service.

## **HISTORY**

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS), the California State Teachers' Retirement System (CalSTRS) annual technical housekeeping bill, among other things, makes technical changes to the Teachers' Retirement Law (TRL) that allow participants in the CB Benefit Program to receive service credit for time served on active military duty.

Chapter 680, Statutes of 1996 (SB 1877—Rogers) makes changes to the laws affecting CalSTRS, the California Public Employees' Retirement System, and '37 Act County Retirement Systems to conform with the federal Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA). It provides for a five-year limit on an individual's cumulative length of absence from a position of employment by reason of service in the uniformed services for the purposes of retirement benefits and requires employers to pay their share of retirement contributions for the period the member was on active duty.

Chapter 543, Statutes of 1991 (SB 1171—Senate PE&R), the CalSTRS annual technical housekeeping bill, among other things, allows DB Program members who served on active military duty in the Persian Gulf conflict to receive DB Program service credit for the time spent on military leave between August 1, 1990 to January 1, 1992, without cost to the member or employer.

Chapter 787, Statutes of 1979 (SB 586—Garcia) provides a uniform method for calculating the amount a DB Program member must pay to receive additional service credit, regardless of the type of service or approved leave for which the member elects to receive credit.

## **SUMMARY OF AMENDMENTS**

The August 22<sup>nd</sup> amended version of the bill clarifies CalSTRS' authorization to credit employee accounts in the CB Benefit Program. Technical amendments also clarify that full and part time teachers will not pay contributions to receive a year's worth of retirements benefits so that full-time teachers receive a years' worth of full-time retirement benefits and part-time teachers will receive a years' worth of part-time retirement benefits.

## **BACKGROUND**

The federal USERRA strengthened public and private sector employment protections for reservists and members of the National Guard called to active duty. CalSTRS implemented these protections with the passage of Chapter 680, Statutes of 1996 (SB 1877—Rogers), which permitted members of the DB Program and participants in the CB Benefit Program in the reserves and National Guard to purchase additional service credit (in the case of the DB Program) or make contributions (in the case of the CB Benefit Program) for their time spent on military duty away from employment, whether for active, inactive or training purposes. To purchase military service, members pay the employee contributions based on the compensation earnable they would have received had they not been absent. CalSTRS employers pay their normal contribution for their returning employees' military service based on compensation earnable only if the member elects to purchase their service and make the employee contributions. Under USERRA, military service not purchased by a member of the DB Program does, however, count towards plan vesting within specified limits. CalSTRS employers are required to notify their eligible returning employees of these options upon their return to the classroom.

CalSTRS employers are required to notify the System upon reemployment of a member following an eligible period of service in the uniformed services. The employer calculates the amount of member and employer contributions required for the eligible period of uniformed service. CalSTRS verifies the employer's calculations, and the employer must then remit the required employer contributions within 60 working days of the date they first notified the System of the member's reemployment. The contributions are based upon the creditable compensation that would have been earned by the member if he or she had been continuously employed in the position or positions in which he or she was employed immediately prior to the eligible period of service. When the member's creditable compensation is not reasonably certain, the contributions are based on the member's average compensation earnable during the 12-month period immediately preceding the eligible period of service in the uniformed services. Currently, participants in the CB Benefit Program in the reserves and National Guard are also allowed to purchase their time away from the classroom performing military service in much the same manner as members of the DB Program.

Prior to the enactment of Chapter 680 in 1996, which implemented USERRA, CalSTRS allowed members to purchase permissive service credit for time served on active military duty (including in the uniformed auxiliary) or the full-time paid service of the American Red Cross prior to

September, 1957 if the service was performed either during war or times of national emergency or during peacetime if they were drafted. In order to receive permissive service credit, eligible members were required to pay both the employer and employee contributions for the service they would have performed in the classroom. CalSTRS members who performed active duty service prior to 1996 remain eligible to purchase or receive service credit for their former active duty service.

Eligible members have previously been exempted in statute from paying the required contributions if they served on active military duty during specified time periods that coincide with WWII and the Korean, Vietnam and Persian Gulf conflicts. In order to receive service credit paid by CalSTRS, the eligible member submitted their application and documentation to CalSTRS, and the employer submitted their records for the period the member would have performed creditable service. The costs associated forgoing member and employer contributions in these previous wars and conflicts were absorbed by the System.

## **DISCUSSION**

Among other things, Assembly Bill 979:

- Eliminates the requirement that a DB Program member pay contributions for the eligible period of service in the uniformed services if the service was performed prior to July 30, 2005, and the member entered that service on or after September 11, 2001.
- Eliminates the requirement that a CB Benefit Program participant pay the employee contributions the participant would have made to their employee account as a condition of his or her account being credited for the eligible period of service in the uniformed services if the service was performed prior to July 30, 2005, and the participant entered that service on or after September 11, 2001.
- Limits the exemption on the payment of employee retirement contributions to the equivalent of one year's retirement benefits.
- Prohibits DB Program members and CB Benefit Program participants from receiving service credit for military service performed after the close of the War on Terrorism.
- Specifies that employers of DB Program members and CB Benefit Program participants exempted from paying employee contributions must continue to make the required employer contributions.

According to the author, AB 979 provides public employees in school districts many of the benefits that were recently extended to state employees, and will help ease the financial burden that results from serving our country during this time. He believes it is important to assist these public employees and their families, who are stressed and making a tremendous sacrifice with the absence of a parent and spouse.

Under this bill, the DB Program member or CB Benefit Program participant returning to employment after a period of qualifying military service would submit his or her application to receive service credit in the same way as he or she would to purchase that time as additional service credit. However, the member or participant would not be required to submit payment for the employee contributions normally required by CalSTRS. The amount of the employers' contributions due to the system would be billed after the member returns to work. At that point, the employer would make one payment covering the contributions due for the period of military service.

AB 979 is similar to previously enacted legislation that provided CalSTRS members who served on active duty in the armed forces, reserves, and National Guard during times of armed conflict, full service credit for their eligible military service at no cost to the member. However, under this bill, the cost to CalSTRS is approximately half of what it otherwise would have been in prior legislation, because Chapter 680, which was enacted after the Persian Gulf conflict, requires employers to continue to pay their portion of the required contributions to the System.

## **FISCAL IMPACT**

Benefit Program Costs – Following the Persian Gulf conflict, approximately 100 members of the DB Program called to active military duty applied to receive service credit for that eligible period. If 100 of the DB Program members apply to receive service credit or be credited for contributions for the maximum allowable year, staff estimates a cost to the Teachers' Retirement Fund (Fund) of approximately \$400,000. If twenty participants of the Cash Balance Benefit Program apply to receive credit for the eligible period, the additional cost to the Fund would be approximately \$7,090.

Administrative Costs – Minor and absorbable

## **BOARD POSITION**

Support. Previously, the Teachers' Retirement Board has sponsored legislation to allow CalSTRS members who served on active duty in the armed forces, reserves, and National Guard in the Persian Gulf, Vietnam, Korea, and World War II, to receive full CalSTRS service credit, at no cost to the member, for their eligible military service. This legislation is consistent with past practice to provide service credit for military service during times of conflict or national emergency. It also is consistent with the treatment provided by other California public retirement systems.

